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POWNALL ON SMITH ON COLONIES

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As early as 1776, Thomas Pownall published a review of the Wealth of Nations in the form of a letter to its author, that may help us analyse a much-debated issue in our discipline: Adam Smith's thought on colonies.

Both friends and enemies of the empire took comfort in the Wealth of Nations. Accordingly, Smith's ambiguities on the subject have been pointed out by specialists, from Henry Brougham and Jeremy Bentham in the early days of the nineteenth century down to Bernard Semmel in 1970.¹

On the other hand, Donald Winch and others have forcibly argued that Smith's imperial 'project', so heartily supported later by J.S.Nicholson and the liberal imperialists, accounts for no more than a ballon d'essai.² And the best textbooks in the history of economic thought at present coincide in placing

Comments by D.P.O'Brien, P.Schwartz, F.Cabrillo and G.Tortella are gratefully acknowledged.

¹ Henry Brougham, An inquiry into the colonial policy of the European powers (Edinburgh, 1803), Vol.1,p.7; Jeremy Bentham, Economic writings, ed. W.Stark (London, 1952), Vol. 1, p.194; Bernard Semmel, The rise of free trade imperialism (Cambridge, 1970), pp.27-29.

² Donald Winch, Classical political economy and colonies (London, 1965), pp.16-17; cf. also his article "Science and the legislator: Adam Smith and after", Economic Journal, September 1983, p.505; A.W.Coats, "Adam Smith and the mercantile system", A.S.Skinner and T.Wilson (eds.), Essays on Adam Smith (Oxford, 1975), p.335.

Adam Smith within the classical stream of hostility towards colonies.³

The origin of the dispute lies in two lines of argument present in the Wealth of Nations. One line stresses that the economic value of colonies -a larger market allowing for a wider division of labour- can surpass the huge costs imposed by monopoly and excessive regulations, and contemplates the possibility of improving that value considerably, by substituting a new commonwealth, the imperial 'project', with autonomy (representation + taxation) and free trade, for the old mercantile colonial system.

The other line is the classical liberal one, emphasizing the costs of empires in a wide variety of items, political and economical: they stimulate wars and draw vast resources for their defence. In the end the metropolitan consumer pays for such costs, suffering more taxes and higher prices due to monopolistic markets. If the mother country imposes tariffs and price controls, the benefits will prove short-lived, because smuggling will be fostered. The best solution, accordingly, would be the freeing of these onerous appendices.

I have dealt extensively with this issue in my book on classical economics and the colonial question, where I have tried to prove that Smith's faltering position was echoed by most of his successors in the classical period -and this should include Marx as well. There is, consequently, no clear-

³ Mark Blaug, Economic theory in retrospect (Cambridge, 1985), p.59; Henry W. Spiegel, The growth of economic thought (Englewood Cliffs N.J., 1971), p.357; D.P.O'Brien, The classical economists (Oxford, 1975), p.288.

cut classical attitude towards colonies, except in their agreement in keeping away from the mercantilistic imperial system.⁴

Additional light can be shed on these matters by perusing one of the earliest reviews of the Wealth of Nations, the Letter from Governor Pownall to Adam Smith. Thomas Pownall (1722-1805), former Governor of Massachusetts and an expert in colonial administration, published the Letter in London in September, 1776, having studied Smith's magnum opus 'in the retreat of the summer'.⁵

Colonies are the major preoccupation⁶ of Pownall in this Letter of 1776, courteously written, and for which Adam Smith

⁴ Carlos Rodríguez Braun, La cuestión colonial y la economía clásica (Madrid, 1989).

⁵ Thomas Pownall, A Letter from Governor Pownall to Adam Smith, L.L.D., F.R.S., being an Examination of Several Points of Doctrine, laid down in his 'Inquiry into the Nature and Causes of the Wealth of Nations' (London, 1776), p.3.

⁶ But not the only one. Pownall presents an interesting critique of Smith's views on the division of labour, the labour theory of value, and the issuing of paper money. Pownall has a subjective approach to value, and seems to have some understanding of money illusion. See Letter, pp. 4-23.

expressed his thanks.⁷ The issue, as is obvious from the extensive chapter VII of book IV and the final pages of book V of the Wealth of Nations,⁸ ranked also very high in Smith's interests.

After studying in Cambridge, Pownall travelled to America in 1753. Later he was appointed governor of Massachusetts in 1757 and of South Carolina in 1759, though he did not take up this last post. Afterwards he was an M.P. 1767-80. A noted controversialist, he appears to have perceived early the necessity of some kind of union between Britain and her colonies -an idea that was to gain great strength among European liberals from that time onwards- but to have feared that the empire would evolve towards an increased taxation of the colonies and a final revolution.⁹

He did not favour the emancipation of the colonies, but

⁷ Smith wrote a very polite letter to Pownall on 19 January 1777. Years later, however, he pointed out to Andreas Holt: 'I have not thought it proper to make any direct answer to any of my adversaries. In the second [1778] edition I flattered myself that I had obviated all the objections of Governor Pownal (sic). I find however, he is by no means satisfied, and as Authors are not much disposed to alter the opinions they have once published, I am not much surprized at it'. A. Smith, The correspondence of Adam Smith, edited by E.C. Mossner and I.S. Ross (Oxford, 1977) pp. 224, 250. But Smith does not seem to have introduced significant changes in his remarks on colonies in the successive editions of his book. Cf. An Inquiry into the Nature and Causes of the Wealth of Nations, edited by R.H. Campbell and S.S. Skinner (Oxford, 1976), pp. 25, n.2, 50, n.15.

⁸ And many other published and unpublished material, such as his 1778 memorandum on the contest with America; cf. Correspondence, pp. 380-5.

⁹ Correspondence, p.213n. On Pownall cf. also Dictionary of National Biography and Dictionary of American Biography.

seems caught up between the Scylla of the mercantile empire, in which he resists to introduce vast liberal changes, and the Caribdis of his acknowledgement of the (sad) fact that in the absence of great reforms the colonies were bound for independence.

To the empire issues he devoted his major work, The administration of colonies, first published anonymously in London in 1764, but running afterwards through five subsequent and enlarged editions under Pownall's name.

It is no surprise, accordingly, to find him dealing at length with imperial matters in his Letter to Adam Smith.

From the outset, Pownall distinguishes between 'circuitous' (direct¹⁰ and with rapid returns) and 'round-about' (artificially expanded) trade and argues that Smith confused them in his attack on the colonial system.¹¹ Only the latter is to be condemned, because it implies the waste of labour and the unprofitable detention of capital, as commodities are sent to market by Tom Long the carrier -the old proverb referring to a carrier that goes further and charges more than he should. All other commerce, direct and with due and quick returns on capital, is advantageous.¹²

The Letter argues accordingly against the obligation of the West India ships to call only at English ports, instead of

¹⁰ Circuitous trade may be interpreted as being indirect, but nonetheless worth the trouble if it adds lots of value in the sequence of exchanges along the way.

¹¹ Wealth of Nations, II.v.28, p.370, n.23.

¹² Letter, pp. 24-26.

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shipping directly at foreign markets for the West Indies -but note that this should be done 'in British shipping only'. Analogously, Americans should be permitted to go with fish to Spain, purchase there certain articles and carry them directly to America -but, again, they should be purchased 'of British merchants'. Pownall proceeds to separate round-about trade and monopoly, never losing sight of the main thing:

wherever the monopoly would create a round-about trade, it should not take place; and wherever it hath occasioned any such round-about operation, it should be relaxed; always however keeping in view this object and end, namely, that so far as our colonies are to be considered as an institution, established and directed to encrease the naval force of our marine empire, and so far as that force derives in any degree from the operations of their commercial powers, so far that monopoly, which engrafts them upon our internal establishment, is indispensable, and ought never to be departed from or relaxed.¹³

Historians of economic thought have long recognized both the liberal elements in mercantilism and the mercantilist elements in classical economics, particularly in Adam Smith. In this regard it is noteworthy that after this full-fledged support of monopoly, Pownall should state that in these matters he sees eye to eye with Smith, the latter having endorsed the Act of Navigation precisely on the grounds that

¹³ Letter, pp. 26-27.

defence is more important than opulence.¹⁴ Monopoly is thus not only wise but, judiciously applied, necessary. And Pownall sums up his eulogy of circuitous-trade with the colonies:

the thing which of all others tends most to increase and extend the American markets for British manufactures, should be allowed and encouraged, provided that trade in its circuition keeps its course in an orbit that hath Great Britain for its center.¹⁵

From the mid-eighteenth century onwards, there was an increasing wave of opinion throughout Europe about the need for reforming the empires. The majority view favoured a relaxation of the strict monopoly regulations of colonial trade; in the case of countries like Spain, where the colonial trade was restricted to one port, the éclaircés favoured a freer trade but still confined to nationals, to the exclusion of foreigners. In the eighteenth century practically no voice suggested the emancipation of the colonies, with the notable exception of Josiah Tucker. And Pownall argues that this is precisely what Smith is aiming at, not only to break up the monopoly privileges to companies but to dismember the empire.

This prompt and hasty conclusion is very unlike the author of 'the Treatise on the wealth of nations', it savours more of the puzzled inexperience of an unpracticed surgeon, who is more ready with his

¹⁴ Wealth of Nations, IV.ii.30.

¹⁵ Letter, p. 27.

amputation knife, than prepared in the skill of healing medicines.¹⁶

After disputing Smith's assertion that the colonies have never furnished any military force, the Letter goes on to tackle the question of monopoly and prices.¹⁷

Freedom of colonial trade should result in lower profits and lower prices, says Smith. Possibly, agrees Pownall, but with disagreeable consequences, he adds. He argues that lower prices could deprive England from necessary articles, that would be taken by foreigners. Moreover, price falls would drag down profits in the mother country and colonies, but will push up the relative return of the highly competitive American corn-farms; the colonies will consequently switch from tobacco and other 'exotick' commodities to corn, 'rivalling us at the European markets in our home commodity, and to the depression of our agriculture'.¹⁸

Like most enemies of free trade, Pownall does not consider the beneficial effects of a market expanded by lower costs. The same applies to his criticism of Smith's point that artificially high profits in colony trade, by attracting capital from other branches of employment, keep prices and profit rates in the whole economy higher than they would otherwise have been, and occasion a change in direction rather than an actual addition to Britain's trade. In Pownall's view,

¹⁶ Letter, p. 37.

¹⁷ Wealth of Nations, IV.vii.c.64, p.614, n.49.

¹⁸ Letter, p. 40.

Smith ignored the evidence. Foreign trade figures in the eighteenth century, showing that Britain's trade with Europe had increased noticeably, and that her colonial trade, and the activities connected with it, had done so immensely.¹⁹ This may well have been perfectly true, but Pownall's statistical answer does not imply that trade could not have increased even more in a freer environment, as it happened in fact after his lifetime.

In a second step, the Letter tries to meet Smith on his own ground. Even if trade had been diverted, what of it? As with the division of labour, there is a division of commerce, and one cannot engage in all trades. Is it not advantageous to concentrate in the branch where the most succulent profit is to be reaped? If a country can maintain a monopoly on the most profitable channels it

has surely acquired that ascendancy in trade and commerce, which is always better understood than explained.

Pownall immediately sees that the combination of smaller quantity and higher price may be harmful for the country's interests. He finds the solution, however, by explicitly assuming a low price-elasticity of the demand for British exports:

although those high [profit] rates may confine the extent, yet raising the profit of the dealing, we enjoy as much, and produce in trade as much, as if

¹⁹ Letter, p. 41. Another statistical dispute in Wealth of Nations, p.461, n.30.

we did more business of less profits.²⁰

One of Smith's arguments opposing the forceful channelling of capital towards the colonial trade was that it represents a distant trade, less beneficial than a trade with neighbouring countries, because of its collecting a less frequent return. Pownall replies that profit rates in colonial trade were roughly in line with profit rates in other non-monopolized trade, and that the capital employed in America is not unprofitable to Great Britain:

like that portion of the harvest which is detained for seed, it is the matrix of a succeeding and encreased production; by operating to advance still farther these improvements, and consequently the population of these countries, it is creating and extending a new market, whose demands for our productive labour calls forth that labour faster and to more advantage, than the same capital directly returned and vested in British goods could do; as it encreases this market in a constant progression, it calls forth more manufacturers; gives a spring to agriculture; and extends the commerce of Great Britain.²¹

Keep the trade and extend the market, was not this Adam

²⁰ Letter, p. 42. It should be noted that it is not free demand inelasticity that Pownall is referring to but the closed, restricted trade with the colonies; high profit rates had little effect on total export demand because the colonies had to buy from Great Britain.

²¹ Letter, p. 43. Wealth of Nations, IV.vii.c.38, pp. 601, n.18, 602, n.21.

Smith's central theme after all? In fact, it was not. Here we find a misunderstanding of Smith's theory: Pownall, again, fails to notice that those were Smith's goals provided they diminished costs -it is interesting to recall that Pownall knew some of the effects of freeing a monopolized market, and described them ably, except the crucial one of cost-lowering. In other words, Smith does not support every proposal of artificial market-creation, regardless of the effect on costs. The confusion underlies Pownall's bitter reaction at Smith's remark that the imperial system was only appropriated for a nation of shopkeepers.²²

Taking up the idea that the monopoly of colonial trade disturbs the equilibrium of the economy, blowing up excessively one of its parts, Pownall treats with irony the organicist remarks about 'convulsions, apoplexy, or death' of social bodies, made by Smith in connection with the artificially expanded trade.²³ He mocks Smith's five ad hoc reasons to explain the fact that the interruption of trade with the twelve American colonies had not been an economic

²² Letter, pp. 44-45. See also Wealth of Nations, IV.vii.c.63, p.613, n.46. In fact, Pownall (p. 44 n) misquotes Smith, who separates a nation of shopkeepers from a nation whose government is influenced by shopkeepers. Only if the case is the latter, Smith concludes rather sarcastically, then the old colonial system is fit.

²³ Wealth of Nations, IV.vii.c.43.

catastrophe.²⁴ Imperial commerce was, after all, not that important, because the productive powers of trade

continue to be actuated, and its circulation to run in some other channels, though our American artery is obstructed.²⁵

This passage indirectly indicates two interconnected ideas that Smith could have put forward in his criticism of colonies, but actually did not. These ideas, widely employed by the classical economists in discussing colonies, and used to prove the small economic importance of the empire, were Smith's theorem, now associated with the name of Turgot, that 'what is annually saved is as regularly consumed as what is annually spent', and the principle that 'the general industry of the society can never exceed what the capital of the society can employ'.

²⁴ Letter, p. 44. The five reasons were: 'First, those colonies, in preparing themselves for their non-importation agreement, drained Great Britain completely of all the commodities which were fit for their market: secondly, the extraordinary demand of the Spanish Flota has, this year, drained Germany and the North of many commodities, linen in particular, which used to come into competition, even in the British market, with the manufactures of Great Britain: thirdly, the peace between Russia and Turkey has occasioned an extraordinary demand from the Turkey market, which, during the distress of the country, and while a Russian fleet was cruising in the Archipelago, had been very poorly supplied: fourthly, the demand of the north of Europe for the manufactures of Great Britain, has been increasing from year to year for some time past: and fifthly, the late partition and consequential pacification of Poland, by opening the market of that great country, have this year added an extraordinary demand from thence to the increasing demand of the North'. Wealth of Nations, IV.vii.c.45. Smith remarked that all these events were transitory and accidental, except the fourth.

²⁵ Letter, pp. 44-45.

This backs the hypothesis that Smith was, in fact, a less thorough anti-colonialist than what he appears to be. The two ideas might have been put into motion by Smith to answer a key economic question on colonies: what would be the consequence of the disappearance of the empire? It is a revealing feature of Smith's ambiguous views that he didn't dwell upon this matter -perhaps because his economic model, followed through to its ultimate consequences, would have forced him to present an extreme anticolonialist standpoint.²⁶ Pownall, in any case, ignores these ideas, and indeed disregards any part of Smith's reasoning that could have looked favourably to colonies.²⁷

Pownall also confronts the objection that monopolized trade attracts capital away from land improvement. This will only happen, he says, at the beginning of colonization, because the enlarged activity in colonial commerce will increase the demand for agricultural goods. He also believes that high profits won't push interest rates upwards. The Letter adopts a Keynesian tone avant la lettre

the rate of interest does not necessarily depend on
the rates of profit made by money, but on the

²⁶ Of course, one can argue that there is no 'economic model' in Smith, in the sense of being fully separated from the political one, and say that precisely because Smith mixes both dimensions he does not conclude by proposing unilateral emancipation.

²⁷ Wealth of Nations, II.iii.18 and IV.ii.3. Cf. also C.Rodríguez Braun, *op.cit.*, pp. 51-2. It can be noted that the two ideas as such are really not destructive of colonies, if the point of the level at which savings are invested, and capital employed, in terms of profit, is not taken into account.

proportion of demand for the use of it to the quantity which, and the velocity with which, the influx of riches, in consequence of an advancing mercantile prosperity, brings into circulation.

High absolute profits increase both the demand for and the supply of money, and so the effect on interest rates levels may be neutral.²⁸

Having met Smith's economic criticisms of empire to his satisfaction, Pownall ends his Letter by admitting Smith's point that monopoly restrains economic activity, but accepting monopoly for political reasons. Pownall indulges at the outset in a mechanical metaphor:

Any regulation which gives a confined course of direction, and keeps in that line of direction any operation, must check and destroy part of the vis motrix, with which the body moving would fly off in a direct course. Just as the central force, which confines any body to circulate round that center in any given orbit, doth check and diminish part of the projectile force with which it would have flown off from that orbit: So the monopoly, which requires the colony-trade to observe Great Britain as its center, doth certainly check and diminish part of that commercial activity with which it is at all points in exertion to fly off in a tangent.

Political realism, however, compels Pownall to recognize that every country must assure its separate existence, 'until

²⁸ Letter, pp. 46-47.

some commercial millenium shall melt down all into one'. A machine loses speed when its direction is forcefully altered, and the same happens when trade is artificially oriented. But this damages the world at large, not Great Britain in particular. On the contrary, she derives from her colonies 'force, revenue and every commercial advantage'.²⁹

Thus the Letter concludes. One might legitimately ask, whatever happened to the pro-colonialist Adam Smith?

According to Pownall there is no such person. Smith's imperial project, hailed as extremely important one century later, he totally disregards as unrealistic, bearing in mind the strife that was going on in America:

I should here have proceeded to the consideration of your plans of the system, which you think Great Britain should adopt in her future conduct towards America; but the present state of events suspends all political discussion on that head. If future events shall ever lay a rational, sound and true ground of colonial government, the proposing of such may then be proper, and shall not be withheld. At present jacta est alea, the fate of this country is now at the hazard of events, which force, and not reason, is to decide. I am afraid we are reasoning here about things which once were, and were most dear, but are no more.³⁰

²⁹ Letter, pp. 47-48.

³⁰ Letter, p. 48.

Pownall would then stand with modern commentators who discount Smith pro-imperialist view. Smith's imperial 'project', as said above, is merely a ballon d'essai and should not be taken seriously.

This interpretation is plausible, but it leaves some loose ends. If Adam Smith was really in favour of the dismemberment of the empire, why didn't he use all his theoretical ammunition against it?

If he really was against the preservation of the colonial link, why did he go into the trouble of proposing an imperial project? Smith's liberal imperialism may be reckoned Utopian. He himself says so explicitly. But mark that he had spoken of the possibility of a universal free trade as Utopian -and it would not be sensible to argue that because of that he wasn't in favour of free trade.³¹

A more reasonable view is to accept that one may speak of the empire in more than one sense, and to this view Pownall's Letter is very much à propos.

A possible answer to why Pownall completely ignored all of Smith's support for the colonies -a support that is not at all hidden in the Wealth of Nations- is that Pownall perceived that Smith and himself were talking about different things. Smith was not against any conceivable empire: what he (and for that matter all his classical successors, Marx included) chose as the main target for criticism was the mercantilistic

³¹ It is interesting to recall that the word Utopia appears only twice in the Wealth of nations, in connection with free trade and the imperial union: see IV.ii.43 and V.iii.68.

empire. And that was precisely Pownall's empire, the one he had administered, and in which he was not prepared to admit so great a change as he saw advocated in the Wealth of Nations.

The fact that Pownall saw Smith as his opponent regarding the future of the colonies is illuminating in this regard, because they appeared to be on the same side, insofar as they both preferred an empire reinforced by the legislative union between Britain and America. Moreover, Smith followed Pownall in several imperial ideas, among them the eventual move of the empire's seat to America.³²

They differ, however, in one critical point. Smith is aiming at a new empire, while Pownall wants to maintain the old one, with some minor reforms. And history would prove both of them right. The renewed British empire would take up some of Smith's ideas. And the empire cherished by Pownall was coming indeed to an end.

³² A. Smith, Correspondence, pp. 379-80, and Wealth of Nations, IV.vii.c.79. Thomas Pownall, The Administration of Colonies, 4th. ed. (London, 1768), pp. 37-9, 168. The moving of the empire seat across the Atlantic could have been taken also from Benjamin Franklin, who was associated with Pownall, visited Great Britain during the preparation of the Wealth of Nations, and met Hume and Smith. Years later, on a demographic basis, Jeremy Bentham would present a similar possibility with regard to Spain. Cf. C. Rodríguez Braun, *op.cit.*, pp. 48-9, 53-4, 128, and A. Smith, Correspondence, pp. 379-80.